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SUBJECT: LEBANON: SCENESETTER FOR PRESIDENTIAL DELEGATION

INTRODUCTION

1. (SBU) The recent conflict between Israel and the terrorist organization Hizballah that transpired from July 12 to August 14 was, according to Lebanon Prime Minister Fouad Siniora, the most destructive in Lebanon's history. Although casualty figures did not approach the 1983 Grapes of Wrath campaign nor the 1975-1990 sectarian civil war, the suddenness of this war's onset and the widespread destruction of numerous villages and civilian infrastructure, particularly in south Lebanon and in the southern suburbs of Beirut, has shaken the political and social fabric of the country.

2. (SBU) That said, the war may also have created some political space for democracy and reform where little existed before. Despite its initial claims of a "divine victory" and heavy condemnation of Israel's war fighting tactics, Hizballah itself has recently been subjected to unprecedented criticism from elements in the Sunni, Christian, and Druze communities. Even some moderate figures in the usually monolithic Shia community in Lebanon are quietly asking whether the human and material cost of the violent conflict was worth it.

3. (SBU) Pro-reform leader PM Fouad Siniora came out of the conflict with widespread admiration for his statesmanship and national (vice confessional) leadership qualities. His adroit political balancing act during the war and its immediate aftermath has given Siniora greatly increased credibility and a much broader power base. But these advantages are counter-balanced by a wounded, yet still lethal, Hizballah adroitly led by Hassan Nasrallah, and an increasingly critical opponent in the person of former General Michel Aoun, both of whom are now persistently demanding that Siniora's Government resign. Moreover, the GOL is perceived -- accurately -- to have been slow off the mark compared to Hizballah in responding to the reconstruction needs of the country.

4. (SBU) In summary, the Lebanese ship of state enjoys the critical advantage of having a dedicated, competent, pro-reform Prime Minister, but it is sailing through perilous waters. The regressive Syrian regime rarely misses a chance to threaten the fragile Lebanese government and is deeply involved, along with its strategic ally Iran, in attempts to destabilize the country. Hizballah, with its two ministers, makes even the simplest decision in the Council of Ministers extremely difficult and time consuming. Much depends on the success of the just-beginning post-conflict reconstruction

effort. If the Siniora Government is perceived as an honest, competent provider of services for all of the country's sectarian communities, it will help solidify democratic and market-oriented institutions. But if Syria, Hizballah, and dissatisfied parties such as Michel Aoun's Free Patriotic Movement, obstruct and even hijack the reconstruction process, Lebanon will be in for difficult times.

BRIEF REVIEW OF DEVELOPMENTS LEADING UP TO THE CONFLICT

¶5. (SBU) The destabilizing presence of the armed terrorist organization Hizballah in Lebanon was a situation that the international community and reform elements in Lebanon found intolerable. In September 2004, the UN Security Council passed UNSCR 1559, whose objective was the re-establishment of a sovereign Lebanese state and a disarmed Hizballah. This effort to regain Lebanon's independence was answered with violence by those elements that wished to preserve the status quo.

¶6. (SBU) The brutal assassination of former Prime Minister Rafiq Hariri and 22 others on February 14, 2005, brought the Lebanese people to the streets demanding an end to violence and foreign interference in Lebanon's internal affairs. Two months later, Syria withdrew its military forces from Lebanon ending almost thirty years of occupation. The international community expressed its solidarity with the people of Lebanon with the passage of UNSCR 1595 which authorized an international investigation into Mr. Hariri's murder. The U.S. supported the efforts of the UN and the Lebanese government to create a tribunal, per UNSCR 1644, with international elements to bring to justice those responsible

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for this heinous crime.

¶7. (SBU) In July 2005, after democratic parliamentary elections (that, while marred by the use of an old Syrian-drafted election law, were considered by the EU and UN to have been credible), a pro-reform government took office under the leadership of Prime Minister Siniora. In an effort to create political consensus, the Siniora government included two ministers allied with Hizballah (one of which is actually a Hizballah member, a first in Lebanon's history). That decision has had lasting repercussions, as the Hizballah ministers, along with their Amal allies, have made it difficult to institute political and economic reform, not to mention the effective implementation of UNSCR 1559.

¶8. (SBU) Despite these difficulties, Lebanon was settling in to a highly anticipated season of stability and economic recovery when the Hizballah-initiated hostilities broke out on July 12. Growth in GDP, flat for the previous two years, was expected to exceed six percent, based on returns in the first half of the year.

34 DIFFICULT DAYS

¶9. (SBU) Politically, the conflict was an extremely difficult test for the still fragile pro-reform Siniora government. To maintain national unity, Prime Minister Siniora was forced to regularly express at least nominal support of the "resistance" even though he was well aware that Hizballah was operating according to Syrian and Iranian dictates, and would probably work to bring down his Government if it could.

¶10. (SBU) During the last ten days of the conflict, Prime Minister Siniora conducted an almost non-stop series of negotiations that resulted in the adoption of UNSCR 1701 on August 11, 2006. Prime Minister Siniora was able to win concessions for Lebanon, particularly on the issues of IDF withdrawal and LAF deployment, but now he has to deliver on

several very difficult commitments.

POST-CONFLICT SITUATION IN LEBANON

¶11. (SBU) Although the immediate humanitarian relief effort went off surprisingly well due to an unprecedented outpouring of international aid and a well-established network of domestic aid agencies, the arguably more important reconstruction effort is encountering serious obstacles.

¶12. (SBU) The primary challenge is executing the selection, prioritization, and coordination of reconstruction projects in the midst of Lebanon's unique confessional system, where each sectarian community carefully monitors what the other communities are receiving. But it would be difficult to argue that the country's Shia community, located in Beirut's southern suburbs, in the cities and villages south of the Litani River, and in largely Hizballah-controlled areas of the Biga Valley, did not suffer the greatest losses in the conflict -- both in lives and material destruction. Several Shia villages in south Lebanon, such as Bint Jbeil, Maroun al Ras, and Khaim, were essentially leveled in the difficult fighting of early August.

¶13. (SBU) Second, the various Ministries do not have a particularly stellar record of providing services anywhere in the country. Despite its many demographic and geographic advantages, Lebanon still suffers from sub par infrastructure -- the road system is in poor shape, the electrical system is archaic and insufficient for the country's needs, telecommunications is expensive and inefficient, and the public school system operates close to systemic failure. For these reasons, it is incumbent that Prime Minister Siniora and his Council of Ministers place renewed emphasis on achieving major structural reforms to win back the confidence of the Lebanese people.

¶14. (SBU) Yet, despite these imposing challenges, there are promising developments. Before the July-August conflict began, the Lebanese economy was poised to grow rapidly. Additionally, the Government and the private sector were finally beginning to discuss privatization and fiscal reform. Perhaps, most importantly, foreign capital investment was also beginning to pick up, although it was heavily

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concentrated in the real estate and tourism sectors. These factors, plus the uncanny resilience inherent in Lebanon's economy (and its people), make this country a place of considerable opportunity.

RECONSTRUCTION

¶15. (SBU) The recent success of the Stockholm Conference for Lebanon's Early Recovery, during which more than USD 900 million was pledged by the international community to address Lebanon's immediate needs and begin the transition from emergency to reconstruction efforts, was a promising start. For its part, the United States pledged approximately USD 230 million, as well as offered a comprehensive economic assistance package, which if implemented, will help Lebanon's economy develop in a more efficient and transparent manner.

¶16. (SBU) Among the USG entities being energized for this effort are: US Agency for International Development, Overseas Private Investment Corporation, Department of Defense's Office of Defense Cooperation, Department of Treasury, Department of Agriculture's "Food for Progress" program, as well as the Department of State's Bureau of Political and Military Affairs, Bureau of Democracy, Human Rights and Labor, Bureau of Population Refugees and Migration, and Bureau of Near East Affairs.

¶17. (SBU) Prime Minister Siniora's practical approach to

reconstruction, particularly concerning international donations of assistance, is to allow donating countries and agencies to "adopt" projects and carry them through from design to completion. This approach, though creative, still requires the Government's guidance and prioritization. Embassy Beirut, as well as our allied diplomatic missions, is attempting to assist the Office of the Prime Minister in this reconstruction effort, but it remains to be seen how things will ultimately turn out.

CHALLENGES

¶18. (SBU) Besides reconstruction and economic recovery, Siniora's government has two other major challenges. First, Lebanon has obligations under UNSCR 1701 to secure its borders and fight arms smuggling. UNIFIL's enhanced mandate and numbers in south Lebanon, along with the historic Lebanese Armed Forces deployment to the south (authorized by Siniora's cabinet), should restrict the maneuverability of Hizballah forces there. But, while there has been some interdiction of weapons shipments since the cessation of hostilities, the jury is still out as to whether the steps Lebanon is taking at its seaports, airport and land borders are sufficient to prevent the resupply of Hizballah. Lebanon has asked for assistance from Germany and the UN, but we hope Lebanon will ask for more help in this area.

¶19. (SBU) Second, the GOL will at some point have to deal with the essence of the problem that brought war upon Lebanon in July: the existence inside the state of a militia that is not publicly accountable. No state can tolerate the presence of a group more heavily armed than the state itself. UN Security Council Resolutions 1559 and 1701, inter alia, called for the disarmament of all armed groups in Lebanon that are not under control of the state. PM Siniora has won cabinet approval for his policy that the state must enjoy a monopoly on arms, and the international community stands ready to support a Lebanese-led process that leads to Hizballah's disarmament. But we expect to see greater GOL efforts to achieve this goal.

SUMMARY

¶20. (SBU) At present, the pro-reform government of Prime Minister Siniora is our best hope for the gradual development of a stable, democratic, and prosperous Lebanon. If the Prime Minister and his pro-reform allies are successful, Lebanon could provide a dynamic model for those regional states seeking to redress the damage caused by decades of static, autocratic rule and who wish to transition to modern, market-oriented societies.

¶21. (SBU) The U.S. and the international community, through a series of UN Security Council resolutions, have sought to

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provide Lebanon protection from regional states, specifically Iran and Syria, which clearly wish to use it as a pawn for their hegemonic ambitions. Reliable, generous, long-term support is needed by this developing democracy. It will take time, but if Iranian and Syrian ambitions can be thwarted in Lebanon, the resulting advantageous influences in the region will be undeniably significant.

FELTMAN